What is the Real Definition of Inflation?

JULY 21, 2010 BY TIM MCMAHON 24 COMMENTS

By Tim McMahon

Define Inflation:

A simple way to ***define inflation*** is "an increase in the price you pay for goods" but that only tells part of the story…

It could also be seen as a "decline in the purchasing power of your money".

But there is more to inflation than that. There are two sides to inflation "*Price Inflation*" and "*Monetary Inflation*".

Price Inflation vs Monetary Inflation:

Technically, **Price Inflation** is when prices get higher or it takes more money to buy the same item and this is what people commonly think of when they hear the word inflation.

Monetary Inflation is an increase in the money supply which generally results in price inflation. This acts as a "hidden tax" on the consumers in that country and is the primary cause of price inflation.

Monetary inflation is commonly referred to as the government "printing money" although the actual process is a bit more complex than just cranking up the printing presses but the effects are essentially the same.

As the money supply increases the currency loses its purchasing power and the price of goods and services increases. In a large economy like that of the U.S. this process usually takes 18 months to 2 years so the government is able to spend the newly minted dollars at the old value before consumers realize that they have been cheated into accepting something that will purchase less than they originally thought it would. See **How does the Money Supply affect our Inflation Rate?**

Inflation is measured by the Bureau of Labor Statistics in the United States using the Consumer Price Index. See **What is the Difference between Inflation and the Consumer Price Index?**

What Causes Inflation?

Inflation and the Money Supply

There are a variety of different causes for inflation. The primary cause of macroeconomic inflation is an increase in the money supply. As "more money chases fewer goods" the price of the available goods is bid up. So simply increasing the money supply will increase prices. See Inflation Cause and Effect or watch the inflation and the money supply video.

A secondary cause that is generally more limited in scope and duration is a temporary shortage of goods either due to a natural disaster like Hurricane Katrina and Hurricane Sandy. In this type of situation the disaster has created a shortage of goods, but the supply of money has remained the same. And the demand for the goods is the same or even increased as rebuilding is necessary. So once again prices are bid up because there is more money than goods. But this situation is usually short lived as producers ramp up production to handle the increased demand or in the case of a localized disaster, producers may ship goods in from unaffected areas. Weather can also cause localized crop failures which can drive up prices but this has become less of a problem as food production and distribution has become more globalized.

A third cause of inflation could be the effects of an organized cartel that is purposely restricting supply and artificially raising prices. This only works as long as the cartel maintains a monopoly. Economic theory tells us that if prices are raised it will encourage competitors to enter the business and eventually drive prices back toward the cost of production. But if the producers collude together they can raise prices by restricting supply. This happened in the 1970's as OPEC agreed to limit oil production in an effort to raise Oil Prices. The effectiveness of this type of price manipulation depends on the unity of the cartel because as prices rise there is more incentive to "cheat" on production quotas. Thus other members of the cartel bear the cost of restricting supply while the individual gets the benefit of increased sales at a higher price. Thus most cartels are generally only successful in the short run. The one notable exception is the DeBeers Diamond Cartel.

Currency exchange rates can have some effects on the price of imported goods but generally they are a function of the money supply in the country (if they are allowed to fluctuate on the open market). In other words, if a country like Zimbabwe or Venezuela prints lots of money their currency will devalue in relation to other currencies. Making their products cheaper on the world market. At first this doesn't make sense but think of it this way: A Venezuelan produces a vase that he is willing to sell for 100 bolívar. When the exchange rate is 1 to 1 that vase will cost an American $100. But if the exchange rate drops to 100 to 1 it will only cost the American $1. The problem is that prices will probably rise in Venezuela and the next vase will have to be sold for 10,000 bolívar. Another problem arises when the government tries to set the exchange rate or institutes price controls which results in economic distortions, shortages and a rise of the "Black Market" i.e. the free market.

See:

- How International Inflation and Currency Fluctuations Affect Todays Businesses
- Venezuelan Time Capsule

So from a macroeconomic point of view the only cause of long term inflation is an increase in the money supply, since the other causes are self-limiting and of limited duration.

Inflation Risk

The primary risk in inflation is that your purchasing power will be eroded during the time that you hold the money. In other words, you will be able to buy less. If you work one hour and expect to be able to buy one toaster with the money you receive from your labors but you don't need a toaster at the moment you expect your money to retain its value so you can buy that toaster at a later date. The primary risk of inflation is that the longer you hold those dollars the less they will buy. So after a year that money that used to buy a toaster will now only buy 90% of a toaster or 50% of a toaster. The higher the inflation rate, the faster the purchasing power decreases. And consequently the quicker people want to unload this depreciating asset. Better to buy the toaster now, even though you don't need it at the moment, rather than wait and have to spend more money later. This causes people to spend money faster and faster the higher the inflation rate goes. The speed at which people unload their money is called the velocity of money.

Definition of Inflation in Economics

However, it appears that the meaning of the word inflation has changed over time. Let's look at how to define inflation and how the definition has changed and what that actually means to you the consumer.

Webster's 1983 Definition of Inflation

According to *Webster's New Universal Unabridged Dictionary* published in 1983 the second definition of "inflation" after "the act of inflating or the condition of being inflated" is:

> "An increase in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and rise in prices: it may be caused by an increase in the volume of paper money issued or of gold mined, or a relative increase in expenditures as when the supply of goods fails to meet the demand.

This definition includes some of the basic economics of inflation and would seem to indicate that inflation is not defined as the increase in prices but as the increase in the supply of money that causes the increase in prices i.e. inflation is a cause rather than an effect. But…

Webster's 2000 Definition of Inflation

The American Heritage® Dictionary of the English Language, Fourth Edition, Copyright © 2000 Published by Houghton Mifflin Company says:

***Inflation**: A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services.*

In this definition, inflation (rising prices) would appear to be the consequence or result, rather than the cause.

Shifty Words

So between 1983 and 2000 the definition appears to have shifted from the cause to the result. Also note that the cause could be either an increase in money supply or a decrease in available goods and services.

Other Definitions

Webster's Revised Unabridged Dictionary, © 1996, 1998 MICRA, Inc., Relegates Price Inflation to number 3. And says:

Undue expansion or increase, from overissue; — said of currency. [U.S.]

WordNet ® 1.6, © 1997 Princeton University, has a witty definition that says:

inflation 1: a general and progressive increase in prices; "in inflation everything gets more valuable except money" [syn: rising prices] [ant: deflation, disinflation]

According to investorwords.com

The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index; opposite of deflation.

From this page we can see that even Dictionaries don't agree on the definition of inflation and economists continue to argue over its primary cause. Although it is generally agreed that economic inflation may be caused by either an increase in the money supply or a decrease in the quantity of goods.

Therefore it should be equally obvious that falling prices will result from a decrease in the money supply or a rapid increase in the quantity of available goods. Recent years have seen a virtual explosion of inexpensive goods produced in China and other former Communist Countries. So it is no wonder that we in the United States see falling prices rather than the effects of inflating the money supply in our economy. The opposite of inflation is Deflation.

Inflation Rate

The inflation rate is generally measured on a percentage basis in annual terms. In other words, the percentage increase of prices over the previous year. So if something cost $1.00 a year ago and costs $1.10 now there has been 10% inflation. See How Do I Calculate the Inflation Rate? for more information.

You may also want to compare the Cost of Living between two cities you can use our Cost of Living Calculator.

Inflation Hedge

An inflation hedge is a method of protecting yourself against the effects of inflation. So if you would like to buy something a year from now but want to protect your purchasing power in the mean time you might purchase an ***"inflation hedge"*** commonly inflation hedges are commodities under the assumption that if paper money is depreciating then physical commodities will be appreciating. Typically precious metals like gold and silver are considered the best inflation hedges because they are easily transportable, divisible, and readily accepted. See Gold the Timeless Inflation Hedge.

Occasionally, other commodities can be used as an inflation hedge. If you are hedging large investments Oil might serve as an inflation hedge. During times of HyperInflation such as that of Weimar Germany people would buy any commodity they could get their hands on such as soap, matches, teacups, whatever… assuming that anything was better than holding on to money that would be worthless shortly. Once they had a commodity they could exchange it with someone else for what they actually needed.

See Also:

- Inflation Definition
- What is Core Inflation?
- What is Deflation?
- What is Disinflation?
- What is Agflation?
- What is Stagflation?
- What is Hyperinflation?
- What is Quantitative Easing?

- What is the Velocity of Money?
- Inflation Adjusted Oil Prices (Chart)
- Inflation Adjusted Oil Prices (table)
- Which is Better High or Low Inflation?
- What is the Difference between Inflation and the Consumer Price Index?

About Tim McMahon

My grandfather lived through the Hyperinflation in Weimar, Germany--to say he was an original "gold bug" would be an understatement. I began reading his "hard money" newsletters at the age of 16 and the dividends from gold stocks helped put me through college. In 1995 the Financial Trend Forecaster paper newsletter was born upon the death of James Moore editor of Your Window into the Future and the creator of the Moore Inflation Predictor©. FTF specializes in trends in the stock market, gold, inflation and bonds. In January of 2003, we spun-off InflationData.com to specialize in all forms of information about the nature of Inflation. In 2009, we added Elliott WaveUniversity to help teach the principles of Elliott Wave analysis and in 2013, we began publishing OptioMoney.

Connect

Comments

1. **Dick Eastman says**

JULY 14, 2017 AT 10:49 AM

Here is an interesting exception. A rise in the price level can result from a decrease in the amount of money in circulation as well as from an increase in the amount of money in circulation. We usually think of more money causing the demand for goods — money

bidding for goods — to increase raising the price, and we picture the downward sloping demand curve shifting to the right. But less money can force firms out of business increasing monopoly power, but more than that, less money in circulation means fewer sales for a firm which means that fixed costs — rent for building, debt owing, long term labor contracts — fixed costs have to be paid for out of fewer units sold, which means that the price per unit must be raised to cover costs, selling fewer at higher price. In my opinion, the low inflation of prices (actually the price level, the price indexes) is really monetary deflation causing the supply — think of the the upward sloping supply curve of goods in each market for goods — to shift to the left, which raises prices. So to answer your question I would define inflation as an increase in money in circulation which may cause either a price increase or a price decrease. Does that make sense to you?

Reply

2. **renatus kafulya says**

JUNE 22, 2017 AT 8:34 AM

what are the impact of inflation on economic development

Reply

- **Tim McMahon says**

JULY 14, 2017 AT 9:49 AM

Good Question! High inflation can stifle economic development because it adds uncertainty to the equation businesses don't know how much their investment will produce. Also they will be investing valuable dollars now and getting back less valuable dollars later. This also

makes banks less likely to lend money so projects only go ahead when the business has the money to do it themselves and are willing to take the risk.

Low inflation on the other hand makes people and businesses feel richer and so they may be more likely to invest in projects but this could result in uneconomical projects being undertaken and so once again money is not used in the most efficient way.

Reply

3. **Nick says**

JULY 18, 2013 AT 1:06 AM

By definition, inflation is a general lowering of the value of money. Although almost never remembered, this of course means that also the price of labor goes up. (= Salaries go up.) A situation with only increased prices for goods but not for labor is not inflation but a consequence of e.g. dearer imports or lowered productivity.

Reply

- **Tim McMahon says**

APRIL 23, 2014 AT 1:06 PM

Nick, You are absolutely correct. Price Inflation caused by monetary inflation should affect wages (the cost of services) as well as the cost of commodities. Unfortunately it doesn't mean just adding a zero to the price of everything. Wages have a time lag built in i.e. you don't get a raise until the end of the year or the next time your contract is renegotiated. So rising commodity prices have a while to take a bite out of your lifestyle before you get your

raise. Wages go up in a stairstep fashion while other prices are steadily climbing so you are always a bit behind. Also your raise may depend on many factors so not everyone gets a raise equal to the inflation rate.

Reply

- **Joss Bolton says**

MARCH 5, 2016 AT 12:03 PM

It is worth pointing out that not everyone is on a wage; when we teach inflation one of the first things we want students to grasp is that if, as a worker, you have leverage of your employer (e.g. skills in short supply) you will get that wage rise. If you are a pensioner, it all depends… Taking it a step further, in a "gig" economy, each contract is individually negotiated, and it may be harder for the suppliers of labour to convince the purchasers to pay more.

Reply

- **Dick Eastman says**

APRIL 20, 2015 AT 6:28 AM

Inflation is a word that never should have been accepted as meaning an increase in the price level. Inflation is in increase of money and loan deposits (loans, "credit") immediately liquid for circulation. The reason why we can't also call a price increase "inflation" is because an decrease in money in circulation (deflation — negative inflation) can cause a INCREASE in prices as easily more money can. The tendency for a price level increase from deflation comes from two sources. 1) Less money in circulation results in less sales for producers — which means fewer units sold, which forces a cutback in output — a shift of the supply curve to the left, which raises prices. Each firm has to raise price to cover fixed costs per unit sold.

Also firms are driven from business from want of sales, adding to monopoly concentration and therefore monopoly pricing power.

Reply

4. **Ted PAssey says**

OCTOBER 19, 2012 AT 1:29 PM

Question: With regards to the definition of inflation, is the population factored into this calculation? If there are more people today in the United Sates than there were in say the 1960's, then it seems the per capita availability might be a new variable not previously considered in formulas including inflation. Is this a fair assessment or is this already accounted as a factor?

Reply

- **Tim McMahon says**

DECEMBER 6, 2012 AT 8:45 PM

Ted,
I don't think population has a major effect on inflation. Prices are a function of the availability goods demand for goods and the money supply. If over night half the population of the world died the demand for goods would be halved but the supply would stay the same. But as a gradual increase in the population manufacturers only produce what they know they can sell so it tends to balance out in a relatively short time.

Reply

- **mike montagne - 1968 author of MPE™, founder, PFMPE™ says**

NOVEMBER 17, 2013 AT 2:20 AM

Prices (or the ultimate cost of production) are certainly not functions of availability and demand, as ostensibly sustained by the money supply.

An implicit obligation to sustain a vital circulation of some remaining principal, from which we are artificially obliged (by an obfuscation of our promissory obligations) to pay *all* remaining principal *plus interest*, ultimately a deflationary outflux which exceeds influx to return to circulation, either by unwarranted assimilation of our production by a banking system which does not even give up commensurable consideration in a purported creation of money which obfuscates our promissory obligations to each other into falsified debts to a banking system which no more than publishes further representations of our promissory obligations to each other — or this exceeding deflationary outflux returns otherwise by re-borrowing what we are paying out of our general possession.

Thus a vital circulation sustained by the latter (with the former certainly being unjustifiable) precipitates in a perpetual escalation of falsified debt ("maldisposition") in which principal returns to circulation as new debt, equal to the former sums of falsified debt we might otherwise presume to be resolved (thus making it mathematically impossible impossible to pay down prior sums of falsified debt); whereas unwarranted interest (on principal which isn't even the rightful possession of such a banking system), perpetually re-borrowed to reflate a vital circulation (so long as possible), therefore perpetually increases every prior sum of falsified debt by so much as periodic interest on an ever greater sum of falsified debt, until we inevitably succumb to the present terminal sums of falsified debt.

As I explained to my high school economics instructor then, all along the way to that inevitable failure, ever more of every unit of circulation is dedicated to sustaining the escalation of falsified debt, as opposed to sustaining the industry and commerce which are artificially obliged to do so.

Furthermore, circulatory inflation (originally and traditionally defined as an increase in circulation *per* "goods and services") is impossible, where debts are merely collateralized.

We have never suffered a circulation inflated beyond the value of monetized property. On the contrary then, circulatory inflation cannot be the cause of price inflation; rather, irreversible multiplication of falsified debt (“maldisposition”) thus remains as the only prospective cause of *price* inflation.

There has never been, nor can ever be a formal proof that prospective circulatory inflation causes price inflation — however much recent obfuscation of the traditional definition of circulatory inflation might merely claim so.

Nonetheless, however much a purported economy may be subject to such natural tendencies to balance supply and demand, actual balance is impossible under “banking’s” obfuscation of our currency — merely because maldisposition dedicates ever more of a circulation to servicing an irreversible proportional escalation of falsified debt, *until* the escalation exceeds the remaining capacity to service the escalation *and sustain* artificially obliged industry — destroying any further credit-worthiness to sustain a vital circulation in the process.

As a matter of fact, I provided the 1983 and 1984 Reagan Administrations with computer models which calculated then that this irreversible multiplication of falsified debt (“maldisposition”) would precipitate in terminal sums of falsified debt at approximately 2010 AD.

Reply

- **Dick Eastman says**

AUGUST 24, 2015 AT 12:16 AM

More people affect the Fisher equation MV = PQ in two immediate ways — as added producers they increase Q (if they can get hired) and as added consumers they increase P. If P and Q both rise, and if velocity is more or less locked in to institutional practices (paychecks every two weeks, tax withholding etc.) — then we see that M must have risen. But what if M is not allowed to rise — then both P and Q cannot rise together.

Reply

5. Tim McMahon says

JULY 21, 2010 AT 12:57 PM

I'm not sure it is the Fed's influence. Maybe it is just the dumbing down of our educational system. In the "microwave generation"- all that matters is the end result- people aren't interested in what caused it anymore. Too much trouble to think for ones self just take the koolaide (or Ritalin) and be quiet.

Reply

6. DarrelJ says

JULY 21, 2010 AT 12:36 PM

Finally, someone with some common sense! I had this conversation with my father a few years ago before he passed on. He spent his entire career in the finance and banking industry. When I first told him of Irwin Schiff's definition of inflation, my father rebuked me, saying that inflation was a rise in prices. As you mentioned, he had switched cause and effect. He finally got out one of his old college textbooks and looked up the definition from the 1940s era. He came back to me and agreed that inflation is, indeed, any increase in the money supply?

Why are today's economists so out of touch with reality? Do you believe it is the Federal Reserve's influence on banking that has created this imbalance? That's my theory. Maybe you have another.

Reply

Who Does Inflation Hurt Most?

APRIL 17, 2007 BY TIM MCMAHON 5 COMMENTS

Who does inflation help and who does inflation hurt?

When we first think of inflation we assume that it will affect all people equally. After all if everyone is using the same dollars wouldn't everyone be affected equally? The fact of course is that everyone isn't affected equally.

Our second assumption might be that the poor would be hurt the worst because they earn minimum wage and everything they buy is getting more expensive. However, if the minimum wage is indexed to inflation they would about break even. So interestingly if the minimum wage earners are also deep in debt inflation actually helps them.

The reason for this is that debtors borrow valuable money and the number of dollars they must repay is fixed. So over time the value of the dollars they must repay is less and less (so they are easier to obtain than if the value of the dollar wasn't inflated away.) This is called repaying with "cheaper dollars".

However, bigger beneficiaries would be the average middle class person with a large mortgage because the debt is for a longer term so inflation has longer to work it's "magic".

On the other hand, the biggest losers due to inflation are those willing to lend money. An extreme example would be during the hyper-inflation of 1923 in Germany. If you had loaned a friend enough money to buy a car in early 1923 and he had repaid it at the end of 1923 you might have been able to buy a box of matches with it. So it is easy to see that the borrower got a car and he was able to repay it with pocket change. The lender of course was the big loser.

At first this looks like the ultimate Robin Hood scheme, robbing from the rich bankers and giving to the poor borrowers. However, the other big losers those on fixed incomes like the elderly and anyone whose income isn't indexed to inflation.

Inflation affects them especially hard because the prices of things they buy go up while their income stays the same. In addition, the poor are generally renters so they don't even benefit from a "cheaper" mortgage while they are paying higher prices for their groceries.

Also even though their wages may be indexed to inflation there is a time lag since it is usually only re-indexed once a year. During this time they are on the old wages while prices for things they buy have already gone up.

Interestingly the biggest debtor in the world is the US government and thus it is also the biggest beneficiary of inflation.

And not coincidentally the Government is also the one who controls the money supply and thus inflation.

In a way, inflation works as a hidden tax because the government borrows money from investors. It spends this valuable money and then gets to pay back its debt with cheaper dollars.

The poor unsuspecting investor who is convinced that Government notes, bonds and T-Bills are “Low-Risk investments” accepts these dollars at face value but before long realizes that they won’t buy as much as the dollars they loaned to the government in the first place.

Generally, the Government walks a tightrope though, it can’t inflate all its debt away too quickly, without destroying the economy, so it faces a constant balancing act.

One big disadvantage of inflation is the fact that it discourages lending (smart banks need more interest to make up for the lost value). This prices some borrowers out of the market making loans too expensive.

Inflation also makes planning for the future more difficult, so businesses are less likely to take risks. No risk means no advancement which stifles the entire economy.

On a small scale lenders are the losers from inflation and borrowers are the winners but on a bigger scale the biggest beneficiary is the Government and the overall economy is the biggest loser. Other losers are those on fixed incomes and those who are priced out of the loan market.

Original Article: https://inflationdata.com/articles/2007/04/17/who-does-inflation-hurt-most/

How Does Gold Fare During Hyperinflation?

JUNE 25, 2012 BY CASEY RESEARCH 5 COMMENTS

By Jeff Clark, Casey Research

Inflation is a natural consequence of loose government monetary policy. If those policies get too loose, hyperinflation can occur. As gold investors, we'd like to know if the precious metals would keep pace in this extreme scenario.

Hyperinflation is an extremely rapid period of inflation, but when does inflation (which can be manageable) cross the line and become out-of-control hyperinflation? Philip Cagan, one of the very first researchers of this phenomenon, defines hyperinflation as "an inflation rate of 50% or more in a single month," something largely inconceivable to the average investor.

Hyperinflation has One Root Cause

While there can be multiple reasons for inflation, hyperinflation historically has one root cause: excessive money supply. Debts and deficits reach unsustainable levels, and politicians resort to diluting the currency to cover their expenses. A tipping point is reached, and investors lose confidence in the currency.

"Confidence" is the key word here. Fiat money holds its purchasing power largely on the belief that it is stable and will preserve that power over time. Once this trust is broken, a flight from the currency ensues. In such scenarios, citizens spend the money as quickly as possible, typically buying tangible items in a desperate attempt to get rid of currency units before they lose value. This process increases the velocity of money, setting off a vicious cycle that destroys purchasing power faster and faster.

How Did Gold Fare in the Most Famous Case of Hyperinflation?

The most famous case of hyperinflation is the one that occurred in Germany during the Weimar Republic, from January 1919 until November 1923. According to Investopedia, "the average price level increased by a factor of 20 billion, doubling every 28 hours."

One would expect gold to fare well during such an extreme circumstance, and it did – in German marks, quite dramatically. In January 1919, one ounce of gold traded for 170 marks; by November 1923, that same ounce was worth 87 *trillion* marks. Take a look.

Inflation was at first benign, then began to grow rapidly, and quickly became a monster. What's important to us as investors is that the price of gold grew faster than the rate of monetary inflation. The data here reveal that over this five-year period, *the gold price increased 1.8 times more than the inflation rate.*

The implication of this is sobering: while hyperinflation wiped out most people's savings, turning wealthy citizens into poor ones literally overnight, those who had assets denominated in gold experienced *no loss in purchasing power.* In fact, their ability to purchase goods and services grew beyond the runaway prices they saw all around them.

One can't help but wonder how the people whose wealth evaporated in Germany during this time felt. In effect, they were robbed by the government – they were on the losing end of a massive transfer of wealth. Of course, there are two sides to the story, as those who held significant amounts of gold and silver were the recipients.

We can't help but speculate about whether most citizens dismissed the idea of inflation during the calm period in 1920-'21. Did respected economists scoff at the idea that Germany could suffer hyperinflation, just before it struck? Did some politicians proclaim that "a little inflation would be good?"

Those who today argue that our obscene debt levels, runaway deficit spending, and money-printing schemes are sound strategies and believe they won't lead to out-of-control inflation might want to rethink those beliefs. We've seen this movie before: it doesn't have a happy ending.

The Historical Record of Gold and Hyperinflation

The historical record is clear on what happens when countries embark on fiscal and monetary paths today's leading economies are embracing. If gold's recent price performance is anything like the calm before Germany's hyperinflationary storm, this is a time to be accumulating more gold.

Keep in mind that hyperinflation is not a rare event. Since Weimar Germany, there have been 29 additional hyperinflations around the world, including those in Austria, Argentina, Greece, Mexico, Brazil, Taiwan, and Zimbabwe, to name a few. On average, that's one every three years or so.

While hyperinflation devastates those who experience it, there is a healing aspect to it. Since the responsibility for this type of disaster lies solely at the feet of government, there may be some Darwinian justice to the way hyperinflation purges the perverse fiscal and monetary imbalances from an economy. After the Weimar Republic hyperinflation, the second half of the 1920s was a strong period for Germany, with low inflation and steady growth.

Many Currencies are Choosing the Hyperinflationary Path

It's no secret that many currencies around the world, including the US dollar, are choosing the path of inflation. If we were to slip into hyperinflation, there will be disastrous consequences for those unprepared. Given that the US dollar is the world's reserve currency, the problems would spread to practically every country on earth. Hyperinflation will shake people's confidence not only in the US dollar, but in the paper currency system as a whole.

What will actually come to pass, we don't know. What we do know is that the measures to cure hyperinflation include tying the currency to a hard asset or even replacing it with one. When creditability in fiat money dissipates, gold may be the only viable option left standing.

Again, the investment implication is obvious: continue to accumulate gold.

How much is enough? Well, how many ounces do you own in relation to your total assets? Anything less than 5% will not offer you a sufficient level of protection in a high inflationary environment.

Another way to look at it is this: how many ounces do you need to cover your monthly expenses? In Weimar Germany, inflation rose uncomfortably for two years – and then pinched harder, spiraling into a destructive hyperinflation for another two. Consider what it would take to maintain your standard of living for a couple years instead of just a couple months.

And don't listen to any government's ongoing pronouncements of confidence in the current system, along with the mainstream media's noisy and frequently inaccurate portrayals of the gold market. (For example, these two headlines appeared **on the same day:** *Gold Edges Lower as Worries over Europe Simmer*; and *Gold Settles Higher on Spanish Bailout Plans*.) In a world awash in ignorance about real money, if not deliberate obfuscation, you have to study the relevant history, draw your own conclusions, and stick with them.

This example shows how gold can perform during hyperinflation. If that worst-case scenario comes to pass, will the example your family's finances sets be a positive or a negative one?

Don't let your family be one of the millions slowly being robbed by the US federal government's policies that are, among other things, eroding the value of its dollar. Start preparing yourself now, and you cannot just survive what looks to be ahead – you and your family can thrive. And that, ultimately, is what investing is all about. Read more by Jeff Clark

Original Article: https://inflationdata.com/articles/2012/06/25/gold-hyperinflation/

How Paper Money Fails

JULY 11, 2010 BY GUEST AUTHOR 3 COMMENTS

About right now, I imagine 90% of our subscribers and most of the analysts in my building think I'm nuts. Truthfully… I feel a little bit like Chicken Little. I've been saying the risk of hyperinflation is a more serious threat to our wealth (and way of life) than a massive deflation. Meanwhile, just about every month it looks more and more like Europe's banking crisis will cause another round of serious deflation in the world's asset prices. I'm starting to look pretty foolish…

I thought economic growth would be stronger than expected, not weaker. I thought job growth would be stronger than expected, not weaker. I thought yields on long-term Treasury bonds would move higher, not collapse to less than 3%. And I thought silver and gold would soar, instead of stall out. What do I have to say for myself?

Well, I'd much rather be making money by being "wrong" than losing money while being "right." And my short portfolio has been racking up stupendous gains. We were up 20% in one day on our short of Barnes & Noble this week, for example.

Now, you might say, "That's fine, Porter, but I'm no speculator and I got crushed this week." I know that's what probably happened to the majority of individual investors, who for some reason will not allow themselves to short stocks. But that's why in February of this year, on the front page of my newsletter, *Stansberry's Investment Advisory*, I told subscribers:

U.S. stocks are woefully overpriced, and runaway inflation will drive stock valuations down. If you're not willing to hedge your exposure to the stock market with short positions, then you need to go completely to a cash position hedged with gold.

What's the country song about not wanting to be right? If being wrong is this profitable, then I don't want to be right. But I will be.

Why do I still believe inflation is the problem that ought to keep you up at night?

It's very simple: The collapse of the developed world's sovereign borrowers, the demise of most of the triple-A-rated corporations in America, and the destruction of the U.S. consumer's balance sheet are all signposts to the end of the world's current monetary system.

Today, more than 60% of the world's banking reserves are U.S. dollars. When governments have to bail out their banks (and they will), they're going to need U.S.

dollars to do it. And they're going to need massive quantities. These dollars won't come in the form of legitimate credits for the simple reason that the U.S. government is broke and so is the U.S. consumer.

Where will the new money come from? The printing press. Mark my words: Over the next few months, maybe six, maybe 12, the Federal Reserve will open huge new "swap" lines with its European counterpart, the ECB. And the Fed will begin buying massive quantities of questionable European assets. The Fed will bail out Europe. And just like when they bailed out Bear Stearns, the Fed will swear it is only lending against high-quality collateral… But it won't let anyone else inspect its books.

This is how paper money systems fail. They don't fail because people hoard dollars. They don't fail because there's too much confidence in the paper money. They fail because, inevitably, far too much credit is created under the paper system. There's no fundamental limit to credit. Sooner or later, people realize the debts can't be carried, much less repaid. At that point, the system collapses – and not because the money becomes more valuable (i.e. deflation).

It collapses because people suddenly decide any other asset is better to hold than the money the banks keep printing. I can't tell you when, exactly, that moment will arrive. But I can tell you with 100% certainty it is coming. I know because of the size of the debts that must be monetized. What we've seen so far won't hold a candle to the problems we will face when that moment arrives.

What should you do about it? It's pretty simple.

Do your best to stay out of debt. You can't know what's going to happen to interest rates. You can't assume you'll be able to carry a debt load, even though inflation will depreciate the burden of carrying it.

Make sure to keep your savings in gold. Gold will become the new standard of international exchange (again) at some point in the next 10 years.

Buy high-quality stocks – companies with plenty of pricing power (like Hershey's). They are the best hedges against hyperinflation. But… make sure you buy only when they're trading at attractive prices. Less than 10 times cash earnings is a good rule of thumb.

And finally… most of all… be patient and prudent. Few people will get rich during this difficult period. Just holding on to what you have will be a triumph.

By Porter Stansberry, in the S&A Digest

The 3 Stages of Inflation

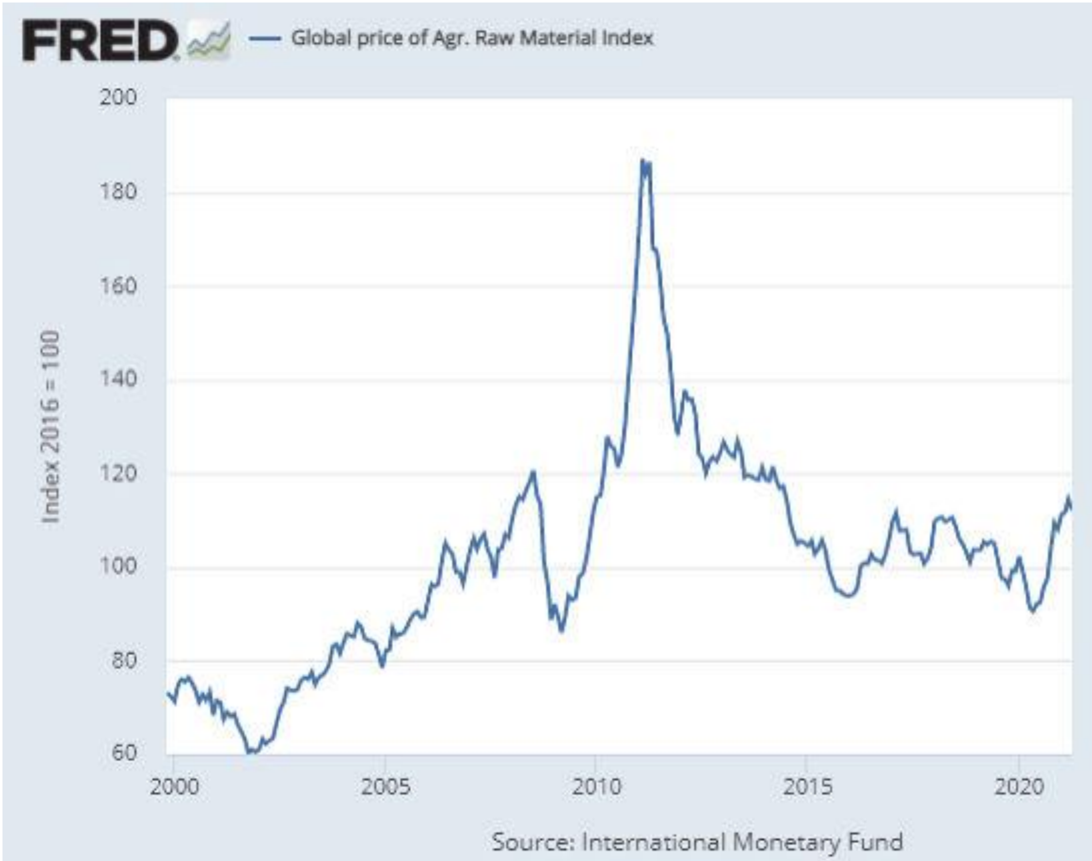
JUNE 3, 2021 BY TIM MCMAHON LEAVE A COMMENT

Inflation tends to arrive in 3 stages:

Stage 1

The first stage is the price manufacturers pay for their raw materials. This can be tracked in a variety of ways including the Global Price of Agrigated Raw Materials published by the St. Louis Federal Reserve. Interestingly, raw materials prices peaked in February 2011 at 187.2 and then fell steadily over the next 4 years. Prices stabilized for a few years before plummeting due to COVID. Since then raw materials prices have spiked sharply. But are still nowhere near 2011 levels. One of the reasons for the sharp spike in 2011 was serious flooding causing massive crop loss driving the price of four basic crops (wheat, rice, corn, and soybeans) much higher while heavy rains in Colombia drove up coffee prices. This combined with a shortage of "rare earth materials" due in part to a Chinese chokehold on the supply of rare earth metals like neodymium, a "rare earth" necessary for products including smartphones, headphones, and hybrid electric cars. For instance, producing a Prius requires roughly 2.2 pounds of neodymium. All of these factors combined to create the "perfect storm" for raw materials prices.

From 2016 through the COVID trough in 2020 raw materials prices stair-stepped down but have since spiked upward again.



Original Article: https://inflationdata.com/articles/2021/06/03/the-3-stages-of-inflation/

Historical Annual U.S. Inflation Rate from 1913 to the present													
YEAR	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**	**AVE.**
2021	1.40 %	1.68 %	2.62 %	4.16 %	4.99 %								
2020	2.49 %	2.33 %	1.54 %	0.33 %	0.12 %	0.65 %	0.99 %	1.31 %	1.37 %	1.18 %	1.17 %	1.36 %	1.24 %
2019	1.55 %	1.52 %	1.86 %	2.00 %	1.79 %	1.65 %	1.81 %	1.75 %	1.71 %	1.76 %	2.05 %	2.29 %	1.81 %
2018	2.07 %	2.21 %	2.36 %	2.46 %	2.80 %	2.87 %	2.95 %	2.70 %	2.28 %	2.52 %	2.18 %	1.91 %	2.44 %
2017	2.50 %	2.74 %	2.38 %	2.20 %	1.87 %	1.63 %	1.73 %	1.94 %	2.23 %	2.04 %	2.20 %	2.11 %	2.13 %
2016	1.37 %	1.02 %	0.85 %	1.13 %	1.02 %	1.00 %	0.83 %	1.06 %	1.46 %	1.64 %	1.69 %	2.07 %	1.26 %
2015	-0.09 %	-0.03 %	-0.07 %	-0.20 %	-0.04 %	0.12 %	0.17 %	0.20 %	-0.04 %	0.17 %	0.50 %	0.73 %	0.12 %
2014	1.58 %	1.13 %	1.51 %	1.95 %	2.13 %	2.07 %	1.99 %	1.70 %	1.66 %	1.66 %	1.32 %	0.76 %	1.62 %
2013	1.59 %	1.98 %	1.47 %	1.06 %	1.36 %	1.75 %	1.96 %	1.52 %	1.18 %	0.96 %	1.24 %	1.50 %	1.47 %
2012	2.93 %	2.87 %	2.65 %	2.30 %	1.70 %	1.66 %	1.41 %	1.69 %	1.99 %	2.16 %	1.76 %	1.74 %	2.07 %
2011	1.63 %	2.11 %	2.68 %	3.16 %	3.57 %	3.56 %	3.63 %	3.77 %	3.87 %	3.53 %	3.39 %	2.96 %	3.16 %
2010	2.63 %	2.14 %	2.31 %	2.24 %	2.02 %	1.05 %	1.24 %	1.15 %	1.14 %	1.17 %	1.14 %	1.50 %	1.64 %
2009	0.03 %	0.24 %	-0.38 %	-0.74 %	-1.28 %	-1.43 %	-2.10 %	-1.48 %	-1.29 %	-0.18 %	1.84 %	2.72 %	-0.34 %
2008	4.28 %	4.03 %	3.98 %	3.94 %	4.18 %	5.02 %	5.60 %	5.37 %	4.94 %	3.66 %	1.07 %	0.09 %	3.85 %
2007	2.08 %	2.42 %	2.78 %	2.57 %	2.69 %	2.69 %	2.36 %	1.97 %	2.76 %	3.54 %	4.31 %	4.08 %	2.85 %
2006	3.99 %	3.60 %	3.36 %	3.55 %	4.17 %	4.32 %	4.15 %	3.82 %	2.06 %	1.31 %	1.97 %	2.54 %	3.24 %
2005	2.97 %	3.01 %	3.15 %	3.51 %	2.80 %	2.53 %	3.17 %	3.64 %	4.69 %	4.35 %	3.46 %	3.42 %	3.39 %
2004	1.93 %	1.69 %	1.74 %	2.29 %	3.05 %	3.27 %	2.99 %	2.65 %	2.54 %	3.19 %	3.52 %	3.26 %	2.68 %
2003	2.60 %	2.98 %	3.02 %	2.22 %	2.06 %	2.11 %	2.11 %	2.16 %	2.32 %	2.04 %	1.77 %	1.88 %	2.27 %
2002	1.14 %	1.14 %	1.48 %	1.64 %	1.18 %	1.07 %	1.46 %	1.80 %	1.51 %	2.03 %	2.20 %	2.38 %	1.59 %
2001	3.73 %	3.53 %	2.92 %	3.27 %	3.62 %	3.25 %	2.72 %	2.72 %	2.65 %	2.13 %	1.90 %	1.55 %	2.83 %
2000	2.74 %	3.22 %	3.76 %	3.07 %	3.19 %	3.73 %	3.66 %	3.41 %	3.45 %	3.45 %	3.45 %	3.39 %	3.38 %
1999	1.67 %	1.61 %	1.73 %	2.28 %	2.09 %	1.96 %	2.14 %	2.26 %	2.63 %	2.56 %	2.62 %	2.68 %	2.19 %
1998	1.57 %	1.44 %	1.37 %	1.44 %	1.69 %	1.68 %	1.68 %	1.62 %	1.49 %	1.49 %	1.55 %	1.61 %	1.55 %
1997	3.04 %	3.03 %	2.76 %	2.50 %	2.23 %	2.30 %	2.23 %	2.23 %	2.15 %	2.08 %	1.83 %	1.70 %	2.34 %
1996	2.73 %	2.65 %	2.84 %	2.90 %	2.89 %	2.75 %	2.95 %	2.88 %	3.00 %	2.99 %	3.26 %	3.32 %	2.93 %
1995	2.80 %	2.86 %	2.85 %	3.05 %	3.19 %	3.04 %	2.76 %	2.62 %	2.54 %	2.81 %	2.61 %	2.54 %	2.81 %
1994	2.52 %	2.52 %	2.51 %	2.36 %	2.29 %	2.49 %	2.77 %	2.90 %	2.96 %	2.61 %	2.67 %	2.67 %	2.61 %
1993	3.26 %	3.25 %	3.09 %	3.23 %	3.22 %	3.00 %	2.78 %	2.77 %	2.69 %	2.75 %	2.68 %	2.75 %	2.96 %
1992	2.60 %	2.82 %	3.19 %	3.18 %	3.02 %	3.09 %	3.16 %	3.15 %	2.99 %	3.20 %	3.05 %	2.90 %	3.03 %
1991	5.65 %	5.31 %	4.90 %	4.89 %	4.95 %	4.70 %	4.45 %	3.80 %	3.39 %	2.92 %	2.99 %	3.06 %	4.25 %
1990	5.20 %	5.26 %	5.23 %	4.71 %	4.36 %	4.67 %	4.82 %	5.62 %	6.16 %	6.29 %	6.27 %	6.11 %	5.39 %

1989	4.67 %	4.83 %	4.98 %	5.12 %	5.36 %	5.17 %	4.98 %	4.71 %	4.34 %	4.49 %	4.66 %	4.65 %	4.83 %
1988	4.05 %	3.94 %	3.93 %	3.90 %	3.89 %	3.96 %	4.13 %	4.02 %	4.17 %	4.25 %	4.25 %	4.42 %	4.08 %
1987	1.46 %	2.10 %	3.03 %	3.78 %	3.86 %	3.65 %	3.93 %	4.28 %	4.36 %	4.53 %	4.53 %	4.43 %	3.66 %
1986	3.89 %	3.11 %	2.26 %	1.59 %	1.49 %	1.77 %	1.58 %	1.57 %	1.75 %	1.47 %	1.28 %	1.10 %	1.91 %
1985	3.53 %	3.52 %	3.70 %	3.69 %	3.77 %	3.76 %	3.55 %	3.35 %	3.14 %	3.23 %	3.51 %	3.80 %	3.55 %
1984	4.19 %	4.60 %	4.80 %	4.56 %	4.23 %	4.22 %	4.20 %	4.29 %	4.27 %	4.26 %	4.05 %	3.95 %	4.30 %
1983	3.71 %	3.49 %	3.60 %	3.90 %	3.55 %	2.58 %	2.46 %	2.56 %	2.86 %	2.85 %	3.27 %	3.79 %	3.22 %
1982	8.39 %	7.62 %	6.78 %	6.51 %	6.68 %	7.06 %	6.44 %	5.85 %	5.04 %	5.14 %	4.59 %	3.83 %	6.16 %
1981	11.83 %	11.41 %	10.49 %	10.00 %	9.78 %	9.55 %	10.76 %	10.80 %	10.95 %	10.14 %	9.59 %	8.92 %	10.35 %
1980	13.91 %	14.18 %	14.76 %	14.73 %	14.41 %	14.38 %	13.13 %	12.87 %	12.60 %	12.77 %	12.65 %	12.52 %	13.58 %
1979	9.28 %	9.86 %	10.09 %	10.49 %	10.85 %	10.89 %	11.26 %	11.82 %	12.18 %	12.07 %	12.61 %	13.29 %	11.22 %
1978	6.84 %	6.43 %	6.55 %	6.50 %	6.97 %	7.41 %	7.70 %	7.84 %	8.31 %	8.93 %	8.89 %	9.02 %	7.62 %
1977	5.22 %	5.91 %	6.44 %	6.95 %	6.73 %	6.87 %	6.83 %	6.62 %	6.60 %	6.39 %	6.72 %	6.70 %	6.50 %
1976	6.72 %	6.29 %	6.07 %	6.05 %	6.20 %	5.97 %	5.35 %	5.71 %	5.49 %	5.46 %	4.88 %	4.86 %	5.75 %
1975	11.80 %	11.23 %	10.25 %	10.21 %	9.47 %	9.39 %	9.72 %	8.60 %	7.91 %	7.44 %	7.38 %	6.94 %	9.20 %
1974	9.39 %	10.02 %	10.39 %	10.09 %	10.71 %	10.86 %	11.51 %	10.86 %	11.95 %	12.06 %	12.20 %	12.34 %	11.03 %
1973	3.65 %	3.87 %	4.59 %	5.06 %	5.53 %	6.00 %	5.73 %	7.38 %	7.36 %	7.80 %	8.25 %	8.71 %	6.16 %
1972	3.27 %	3.51 %	3.50 %	3.49 %	3.23 %	2.71 %	2.95 %	2.94 %	3.19 %	3.42 %	3.67 %	3.41 %	3.27 %
1971	5.29 %	5.00 %	4.71 %	4.16 %	4.40 %	4.64 %	4.36 %	4.62 %	4.08 %	3.81 %	3.28 %	3.27 %	4.30 %
1970	6.18 %	6.15 %	5.82 %	6.06 %	6.04 %	6.01 %	5.98 %	5.41 %	5.66 %	5.63 %	5.60 %	5.57 %	5.84 %
1969	4.40 %	4.68 %	5.25 %	5.52 %	5.51 %	5.48 %	5.44 %	5.71 %	5.70 %	5.67 %	5.93 %	6.20 %	5.46 %
1968	3.65 %	3.95 %	3.94 %	3.93 %	3.92 %	4.20 %	4.49 %	4.48 %	4.46 %	4.75 %	4.73 %	4.72 %	4.27 %
1967	3.46 %	2.81 %	2.80 %	2.48 %	2.79 %	2.78 %	2.77 %	2.45 %	2.75 %	2.43 %	2.74 %	3.04 %	2.78 %
1966	1.92 %	2.56 %	2.56 %	2.87 %	2.87 %	2.53 %	2.85 %	3.48 %	3.48 %	3.79 %	3.79 %	3.46 %	3.01 %
1965	0.97 %	0.97 %	1.29 %	1.62 %	1.62 %	1.94 %	1.61 %	1.94 %	1.61 %	1.93 %	1.60 %	1.92 %	1.59 %
1964	1.64 %	1.64 %	1.31 %	1.31 %	1.31 %	1.31 %	1.30 %	0.98 %	1.30 %	0.97 %	1.30 %	0.97 %	1.28 %
1963	1.33 %	1.00 %	1.33 %	0.99 %	0.99 %	1.32 %	1.32 %	1.32 %	0.99 %	1.32 %	1.32 %	1.64 %	1.24 %
1962	0.67 %	1.01 %	1.01 %	1.34 %	1.34 %	1.34 %	1.00 %	1.34 %	1.33 %	1.33 %	1.33 %	1.33 %	1.20 %
1961	1.71 %	1.36 %	1.36 %	1.02 %	1.02 %	0.68 %	1.35 %	1.01 %	1.35 %	0.67 %	0.67 %	0.67 %	1.07 %
1960	1.03 %	1.73 %	1.73 %	1.72 %	1.72 %	1.72 %	1.37 %	1.37 %	1.02 %	1.36 %	1.36 %	1.36 %	1.46 %
1959	1.40 %	1.05 %	0.35 %	0.35 %	0.35 %	0.69 %	0.69 %	1.04 %	1.38 %	1.73 %	1.38 %	1.73 %	1.01 %
1958	3.62 %	3.25 %	3.60 %	3.58 %	3.21 %	2.85 %	2.47 %	2.12 %	2.12 %	2.12 %	2.11 %	1.76 %	2.73 %
1957	2.99 %	3.36 %	3.73 %	3.72 %	3.70 %	3.31 %	3.28 %	3.66 %	3.28 %	2.91 %	3.27 %	2.90 %	3.34 %
1956	0.37 %	0.37 %	0.37 %	0.75 %	1.12 %	1.87 %	2.24 %	1.87 %	1.86 %	2.23 %	2.23 %	2.99 %	1.52 %

1955	-0.74 %	-0.74 %	-0.74 %	-0.37 %	-0.74 %	-0.74 %	-0.37 %	-0.37 %	0.37 %	0.37 %	0.37 %	0.37 %	-0.28 %
1954	1.13 %	1.51 %	1.13 %	0.75 %	0.75 %	0.37 %	0.37 %	0.00 %	-0.37 %	-0.74 %	-0.37 %	-0.74 %	0.32 %
1953	0.38 %	0.76 %	1.14 %	0.76 %	1.14 %	1.13 %	0.37 %	0.75 %	0.75 %	1.12 %	0.75 %	0.75 %	0.82 %
1952	4.33 %	2.33 %	1.94 %	2.33 %	1.93 %	2.32 %	3.09 %	3.09 %	2.30 %	1.91 %	1.14 %	0.75 %	2.29 %
1951	8.09 %	9.36 %	9.32 %	9.32 %	9.28 %	8.82 %	7.47 %	6.58 %	6.97 %	6.50 %	6.88 %	6.00 %	7.88 %
1950	-2.08 %	-1.26 %	-0.84 %	-1.26 %	-0.42 %	-0.42 %	1.69 %	2.10 %	2.09 %	3.80 %	3.78 %	5.93 %	1.09 %
1949	1.27 %	1.28 %	1.71 %	0.42 %	-0.42 %	-0.83 %	-2.87 %	-2.86 %	-2.45 %	-2.87 %	-1.65 %	-2.07 %	-0.95 %
1948	10.23 %	9.30 %	6.85 %	8.68 %	9.13 %	9.55 %	9.91 %	8.89 %	6.52 %	6.09 %	4.76 %	2.99 %	7.74 %
1947	18.13 %	18.78 %	19.67 %	19.02 %	18.38 %	17.65 %	12.12 %	11.39 %	12.75 %	10.58 %	8.45 %	8.84 %	14.65 %
1946	2.25 %	1.69 %	2.81 %	3.37 %	3.35 %	3.31 %	9.39 %	11.60 %	12.71 %	14.92 %	17.68 %	18.13 %	8.43 %
1945	2.30 %	2.30 %	2.30 %	1.71 %	2.29 %	2.84 %	2.26 %	2.26 %	2.26 %	2.26 %	2.26 %	2.25 %	2.27 %
1944	2.96 %	2.96 %	1.16 %	0.57 %	0.00 %	0.57 %	1.72 %	2.31 %	1.72 %	1.72 %	1.72 %	2.30 %	1.64 %
1943	7.64 %	6.96 %	7.50 %	8.07 %	7.36 %	7.36 %	6.10 %	4.85 %	5.45 %	4.19 %	3.57 %	2.96 %	6.00 %
1942	11.35 %	12.06 %	12.68 %	12.59 %	13.19 %	10.88 %	11.56 %	10.74 %	9.27 %	9.15 %	9.09 %	9.03 %	10.97 %
1941	1.44 %	0.71 %	1.43 %	2.14 %	2.86 %	4.26 %	5.00 %	6.43 %	7.86 %	9.29 %	10.00 %	9.93 %	5.11 %
1940	-0.71 %	0.72 %	0.72 %	1.45 %	1.45 %	2.17 %	1.45 %	1.45 %	-0.71 %	0.00 %	0.00 %	0.71 %	0.73 %
1939	-1.41 %	-1.42 %	-1.42 %	-2.82 %	-2.13 %	-2.13 %	-2.13 %	-2.13 %	0.00 %	0.00 %	0.00 %	0.00 %	-1.30 %
1938	0.71 %	0.00 %	-0.70 %	-0.70 %	-2.08 %	-2.08 %	-2.76 %	-2.76 %	-3.42 %	-4.11 %	-3.45 %	-2.78 %	-2.01 %
1937	2.17 %	2.17 %	3.65 %	4.38 %	5.11 %	4.35 %	4.32 %	3.57 %	4.29 %	4.29 %	3.57 %	2.86 %	3.73 %
1936	1.47 %	0.73 %	0.00 %	-0.72 %	-0.72 %	0.73 %	1.46 %	2.19 %	2.19 %	2.19 %	1.45 %	1.45 %	1.04 %
1935	3.03 %	3.01 %	3.01 %	3.76 %	3.76 %	2.24 %	2.24 %	2.24 %	0.74 %	1.48 %	2.22 %	2.99 %	2.56 %
1934	2.33 %	4.72 %	5.56 %	5.56 %	5.56 %	5.51 %	2.29 %	1.52 %	3.03 %	2.27 %	2.27 %	1.52 %	3.51 %
1933	-9.79 %	-9.93 %	-10.00 %	-9.35 %	-8.03 %	-6.62 %	-3.68 %	-2.22 %	-1.49 %	-0.75 %	0.00 %	0.76 %	-5.09 %
1932	-10.06 %	-10.19 %	-10.26 %	-10.32 %	-10.46 %	-9.93 %	-9.93 %	-10.60 %	-10.67 %	-10.74 %	-10.20 %	-10.27 %	-10.30 %
1931	-7.02 %	-7.65 %	-7.69 %	-8.82 %	-9.47 %	-10.12 %	-9.04 %	-8.48 %	-9.64 %	-9.70 %	-10.37 %	-9.32 %	-8.94 %
1930	0.00 %	-0.58 %	-0.59 %	0.59 %	-0.59 %	-1.75 %	-4.05 %	-4.62 %	-4.05 %	-4.62 %	-5.20 %	-6.40 %	-2.66 %
1929	-1.16 %	0.00 %	-0.58 %	-1.17 %	-1.16 %	0.00 %	1.17 %	1.17 %	0.00 %	0.58 %	0.58 %	0.58 %	0.00 %
1928	-1.14 %	-1.72 %	-1.16 %	-1.16 %	-1.15 %	-2.84 %	-1.16 %	-0.58 %	0.00 %	-1.15 %	-0.58 %	-1.16 %	-1.15 %
1927	-2.23 %	-2.79 %	-2.81 %	-3.35 %	-2.25 %	-0.56 %	-1.14 %	-1.15 %	-1.14 %	-1.14 %	-2.26 %	-2.26 %	-1.92 %
1926	3.47 %	4.07 %	2.89 %	4.07 %	2.89 %	1.14 %	-1.13 %	-1.69 %	-1.13 %	-0.56 %	-1.67 %	-1.12 %	0.94 %
1925	0.00 %	0.00 %	1.17 %	1.18 %	1.76 %	2.94 %	3.51 %	4.12 %	3.51 %	2.91 %	4.65 %	3.47 %	2.44 %
1924	2.98 %	2.38 %	1.79 %	0.59 %	0.59 %	0.00 %	-0.58 %	-0.58 %	-0.58 %	-0.58 %	-0.58 %	0.00 %	0.45 %
1923	-0.59 %	-0.59 %	0.60 %	1.20 %	1.20 %	1.80 %	2.38 %	3.01 %	3.61 %	3.59 %	2.98 %	2.37 %	1.80 %
1922	-11.05 %	-8.15 %	-8.74 %	-7.73 %	-5.65 %	-5.11 %	-5.08 %	-6.21 %	-5.14 %	-4.57 %	-3.45 %	-2.31 %	-6.10 %

1921	-1.55 %	-5.64 %	-7.11 %	-10.84 %	-14.08 %	-15.79 %	-14.90 %	-12.81 %	-12.50 %	-12.06 %	-12.12 %	-10.82 %	-10.85 %
1920	16.97 %	20.37 %	20.12 %	21.56 %	21.89 %	23.67 %	19.54 %	14.69 %	12.36 %	9.94 %	7.03 %	2.65 %	15.90 %
1919	17.86 %	14.89 %	17.14 %	17.61 %	16.55 %	14.97 %	15.23 %	14.94 %	13.38 %	13.13 %	13.50 %	14.55 %	15.31 %
1918	19.66 %	17.50 %	16.67 %	12.70 %	13.28 %	13.08 %	17.97 %	18.46 %	18.05 %	18.52 %	20.74 %	20.44 %	17.26 %
1917	12.50 %	15.38 %	14.29 %	18.87 %	19.63 %	20.37 %	18.52 %	19.27 %	19.82 %	19.47 %	17.39 %	18.10 %	17.80 %
1916	2.97 %	4.00 %	6.06 %	6.00 %	5.94 %	6.93 %	6.93 %	7.92 %	9.90 %	10.78 %	11.65 %	12.62 %	7.64 %
1915	1.00 %	1.01 %	0.00 %	2.04 %	2.02 %	2.02 %	1.00 %	-0.98 %	-0.98 %	0.99 %	0.98 %	1.98 %	0.92 %
1914	2.04 %	1.02 %	1.02 %	0.00 %	2.06 %	1.02 %	1.01 %	3.03 %	2.00 %	1.00 %	0.99 %	1.00 %	1.35 %

Top 10 Bulge Bracket Investment Banks

Article by **Dheeraj Vaidya, CFA, FRM**

Overview

Bulge Bracket Investment Banks are the biggest commercial institutions in the global financial industry. They are some of the leading, lucrative and giant organizations of the world not only in terms of their size and structure but also in terms of the plethora of banking requirements they fulfill.

It wouldn't be wrong to say that bulge bracket banks are the prime financial institutions of the world. They are some of the largest, enormous multi-national **investment banks** of the world offering varied services to their clients. Predominantly, bulge bracket banks cater to the banking requirements of some of the largest corporations as well as governments of the world. They not only provide financial, advisory, sales, and marketing services to their clients but are also into research and designing of some of the most innovative and ground-breaking financial products, ranging from equities, commodities derivatives to credit, mortgage, **interest rate swaps**, and insurance products. Moreover, they don't limit themselves to these functions only, some Bulge Bracket Banks or BB as they are typically referred, are into commercial banking space too.

The word bulge bracket refers to the ***tombstone*** where these banks are mainly listed on the top in the group. Whenever there is a public issue of new security, or any financial transaction is listed for public notification, the advertisement mentions the name of these banks on the topmost, sometimes even in bold, which explains the term *bulge*.

List of Top 10 Bulge Bracket Investment Banks

Although there are no pre-defined parameters for the inclusion of investment banks in the bulge bracket list, there are certain banks that are referred to as bulge bracket investment banks which are itemized underneath.

Name of the Bank	Year of Foundation	Headquarter	Revenue
Blackstone	1985	New York	$932.4 million
Goldman Sachs & Co	1869	New York	NA
Morgan Stanley	1935	New York	NA
J.P. Morgan Chase & Co	1799	New York	$24.5 billion
Bank of America Merrill Lynch	1991	Charlotte N.C	NA
Credit Suisse	1856	Zurich	NA
Citi	1812	New York	$18.7 billion
Deutsche Bank	1870	New York	NA
HSBC	1999	London	$60.68 billion
UBS	1870	Zurich	NA

**** NA- Not Available***

#1 – Blackstone

Two former Lehman Brothers' employees, Stephen A. Schwarzman and Peter G. Peterson along with another formed a start-up in the year of 1985 with a considerable amount of $400,00 and named it **Blackstone**. It's founder members being the chairman of M&A and

chief executive of the previous firm respectively, Blackstone was formed as an **M&A** boutique bank and had to struggle like any other start-up even though the two forming the bank were influential people in their own right.

With their resolve and persistence, Blackstone launched its IPO in the year 2007 and raised equity equivalent to $4billion. Today, Blackstone has an employee strength of around 2250 and has spread its wings with its offices spanning across the globe.

- **Bank Services:** Blackstone is into real estate, **private equity** along with credit and hedge funds. Since it also invests its money into alternative investments, Blackstone maintains a crisp team and a streamlined organization to pay appropriate attention to all its clients and is not into **hostile takeovers** and bids. It is one of the most prominent and leading names in the industry when it comes to **hedge funds** and alternative asset investing.
- **Office Culture:** Blackstone is one of the best places to work for budding investment bankers. It attracts the best talent from colleges and provides ample growth opportunities. Blackstone was ranked 1* for the second time in a row. It is one of the strongest brand names in Wall street which not only has exceptional leadership but also provides excellent exit opportunities.
- **Strengths/Weaknesses:** It has a great culture and quality of people and is the best place to start an investment banking career. Being a small organization compared to the rest of the biggies, it has to face a certain set of challenges also.

#2 – Goldman Sachs

Goldman Sachs is one of the oldest and foremost bulge bracket investment bank formed in 1869 and is led by Lloyd Blankfein. Goldman Sachs is the mecca of investment banking, aspiring

investment bankers aim to be a part of the most reputed and venerable bank of all times and work with the world's most talented, ambitious, and determined people. Since it is one of the oldest banks, Goldman Sachs has been the pioneer in a lot of investment banking services, one of them being the establishment of the IPO market in the 1900s. Along with this, the bank is also credited with being the pioneer in establishing the institutional sales market, forming a dedicated M&A division, negotiating trade on NYSE, and being the forerunner in distributing electronically generated research reports.

- **Bank Services:** Since Goldman Sachs is the pioneer in the investment banking industry, its services mainly involve each and every service pertaining to the industry, be it investment management, investment banking dealing with M&A, risk management, restructuring, underwriting of a public issue, wealth advisory services, portfolio management, loans, and also clearance of client transactions on stock, options and futures exchanges.
- **Office Culture:** Goldman Sachs deals with a plethora of services and is a revered bank catering to the requirements of some of the largest corporate and **financial institutions**. The work culture at Goldman Sachs is quite demanding and challenging at the same time. It is the place to be where one can get a lot of knowledge and exposure since it gives you immense opportunities to grow and expand your horizons within the frim.
- **Strengths/Weaknesses:** Goldman Sachs has a lot to offer to someone who is looking for experience and understanding of the investment banking industry through sheer hard work and grit.

  On the downside, it is quite a demanding bank with a lot of challenges and delivery in a short time.

#3 – Morgan Stanley

Ranked 3* **Morgan Stanley** is headquartered in New York City. Henry S. Morgan and Harold Stanley both ex-J.P. Morgan employees started Morgan Stanley in the year 1935 and with their grit and determination today Morgan Stanley is a force to reckon with in the investment banking scene.

- **Bank Services:** Morgan Stanley is primarily into wealth management, asset management, and institutional securities. Wealth management entails providing **financial planning** and wealth management advisory typically into insurance annuities and investment products. Asset management comprises of **mutual funds** and institutional investment products into equities, fixed income securities, and alternative products.
  Institutional securities consist of corporate lending, fixed income sales and trading, restructuring, M&A advisory, **project finance**, and capital raising.
- **Office Culture:** Morgan Stanley is a firm with very strong work culture, since its comparatively newer than the rest of the investment banks, it has a lot to look forward to. The office culture at Morgan Stanley is one that includes a lot of motivation, a high level of commitment and enthusiasm.
- **Strengths/weaknesses:** It is at par with the elitist of the lot in the bulge bracket industry. The compensation might not be at par with the other giants but the teamwork and work ethics of Morgan Stanley can be vouched for.

#4 – J.P. Morgan

J.P. Morgan has a long history of mergers, most recent being the merger of the year 2000 when J.P. Morgan & Co. merged with the Chase Manhattan Bank naming it J.P. Morgan Chase & Co. It provides a plethora of financial services to its clients big or small with an overall employee strength of close to 3,00,000. It has its headquarter in New

York. In the year of 2004, J.P. Morgan Chase & Co. and Bank One merged into a single entity, and Bank One's CEO Jamie Dimon who is heading the collaboration acquired Bear Stearns in the year 2008.

- Bank Services: J.P. Morgan's services include asset management, private banking, commercial banking investment banking, and treasury and securities services to some of the most renowned names of the world. It is a force to reckon with in the worldwide M&A deal and underwriting volume.
- Office culture: The crème de la crème of the investment banking industry works at J.P. Morgan. It attracts some of the best and most competitive talents in the world who have an urge to excel in life. The office culture is demanding and full of unlimited opportunities for growth.
- Strengths/weaknesses: Some say J.P. Morgan is an overrated bank that relies more on the **balance sheet** than on actual and real analysis. Overall it's a great bank that has a clean record, the only exception to which was the 2012 loss to the tunes of $5billion.

#5 – Bank of America

Bank of America has a large asset base and is considered one of the largest banks in the US. Its core businesses include credit cards, mortgage lending, asset management, corporate banking, consumer and small **business banking**. It has a huge presence in the **retail banking** space with around 5,000 retail branches and 16,000 ATMs across the world. Bank of America acquired Merrill Lynch in the year 2009 and since then has its presence in the wealth management industry as well and is considered a leader there. Headquartered in Charlotte N.C. Bank of America is headed by its CEO Brian Moynihan.

- **Bank Services:** Bank of America Merrill Lynch caters to small and medium-sized corporations and institutional clients. It has

captured a large share of the wealth management market and provides business banking, commercial banking, and investment services along with wholesale credit to its prestigious clients.

- **Office Culture:** Bank of America has a team-oriented culture and gives ample opportunities to not only its senior management but also to the middle and junior management. It is a large corporation hence has its own set of challenges and is often criticized for its red-tapism.
- **Strengths/Weaknesses:** Bank of America Merrill Lynch has a huge presence across the globe and has captured the market in the wealth management industry through its retail banking arm. The 2008 crisis has tarnished the image of Bank of America Merrill Lynch and its reputation is not considered as strong as it used to be.

#6 – Credit Suisse

Credit Suisse is one of the oldest and largest financial institutions in the world. It was established in the year 1942 and is headed by Tidjane Thiam. It was one of the few banks which remained unaffected by the credit crisis of 2008 that engulfed the whole world and was named as the *Best Global Bank* by *Euromoney* magazine in the year 2010.

- **Bank Services:** Credit Suisse provides Private banking, Investment banking, and Asset Management services to its clients. Private banking includes a plethora of wealth management products customized as per the clients' requirements. Investment banking includes a varied range of securities and investment banking products to corporations and institutional clients. Asset management, on the other hand, provides products for investment across various **asset classes**.
- **Office culture:** Since it is a large bank it gives a lot of opportunities for internal mobility and one has to put in a lot of

hours in the organization through the pay may not be in consonance with the amount of hard work to be put in, the learning curve at Credit Suisse compensates for it.

- **Strengths/weaknesses:** It is said that Credit Suisse has a better pay structure than most of its counterparts and is one of the renowned names in the European banks. Credit Suisse's image got a bit tarnished in the year 2014 when it pleads guilty for aiding its client in **tax evasion**.

#7 – Citigroup

Citigroup is a financial powerhouse and is considered the most appreciated brand name. The 2008 credit crisis affected Citi adversely but it still is a force to reckon within the financial services industry. Its history dates back to 1812 and since then it has faced many financial crises and meltdowns but has emerged as a leader by transforming its systems and is much safer and smarter bank to work with. It is led by Michael Corbat and has its presence in around 160 countries globally.

- **Bank Services:** It provides a whole range of financial services ranging from consumer, corporate and investment banking, credit, brokerage, wealth management, and transaction services to its 200 million customers which include corporations, institutions, governments, and retail consumers.
- **Office Culture:** Citigroup has long working hours like its counterparts but offers ample opportunities for growth and advancement in the company. In fact, it is known for its higher compensation packages and is a place sought after by many.
- **Strengths/weakness:** Citigroup is one of the oldest financial institutions that has been witness to much global financial crisis and has emerged as a winner. It has learned its lessons well and is a much crisper organization now.

#8 – Deutsche Bank

Deutsche Bank is a German bank and was established in 1870. It has been steadily building up its base in the investment banking business. Its clients include both public and **private sector** companies and have their presence in 70 countries primarily in Europe.

- **Bank Services:** Deutsche Bank's services primarily include retail, corporate, and investment banking. It has a large base of private banking clients and is into corporate investments M&As and **asset management**.
- **Office culture:** Deutsche bank boasts of a good office culture with its diverse workforce. It is an interesting work environment and has a lot of work pressure. Office politics form an integral part of Deutsche culture.
- **Strengths/weaknesses:** Deutsche Bank is quite political, though it is a strong bank and is known for the plethora of financial services it offers, it can be rightly termed as the jack of all trades but master of none since it isn't recognized for a single financial service where it has its mastery and strong presence.

9 – HSBC

The **Hong Kong and Shanghai Banking Corporation** is a UK based bank with its headquarters in London. It is one of the largest financial services firms with its presence spread across Asia, Africa Middle East, North and South America, and Europe.

- **Bank Services:** HSBC is slowly and steadily building itself into the bulge banking industry, it has spread its wings across diverse cultures and countries and has projected itself as *the world's local bank*. It is primarily into retail and commercial banking space, credit cards, insurance lending, and **private banking**.

- **Office culture:** HSBC is determined to provide a good work-life balance to its employees and has succeeded in attaining that to a very large extent. It is a strong bank with its presence primarily in Europe.
- **Strengths/Weaknesses:** In the global **financial crisis** of 2008 when most of the major players were struggling, HSBC stood its ground and is known as a well-run bank which was literally almost unscathed in the crisis by not taking any bailout money from the government.

#10 – UBS

UBS is comparatively smaller in size than its counterparts and employs around 60,000 people. It is headquartered in Zurich, Switzerland, and has its presence in around 50 countries. It provides financial services to retail, commercial, private, and institutional clients across the globe.

- **Bank Services:** Union Bank of Switzerland merged with Swiss Bank in the year 1998 and is primarily into wealth management services dealing with equities, commodities and foreign exchange.
- **Office Culture:** The employees at UBS vouch for the interesting and mentally stimulating role they have of looking after for their prestigious client's requirements, which perhaps involves long working hours and a lot of stress. It offers a lot of growth opportunities not only in Switzerland but also internationally.
- **Strengths/Weaknesses:** UBS was awarded the *Best Global Bank by Euromoney in 2014* and *Best Global Wealth Manager* in 2015 and has set an example for others to emulate its strategy and methodology. Though being a strong bank its image was tarnished a bit by the global financial crisis.

Tombstone

By JAMES CHEN, Updated Apr 3, 2020

What Is a Tombstone?

A tombstone is a written advertisement of a public offering placed by investment bankers who are underwriting the issue. It gives basic details about the issue and lists each of the underwriting groups involved in the deal. The tombstone provides investors with some general information and directs the prospective investors to a link where they can obtain a prospectus.

KEY TAKEAWAYS

- A tombstone is a written advertisement that gives investors basic details about an upcoming public offering.
- A public offering is when a company offers to sell equity shares in the company in order to raise money.
- The Securities and Exchange Commission (SEC) requires companies to publish advertisements as part of the disclosure requirements before issuing new shares of stock.
- The tombstone ad describes the type and number of securities offered, how they can be purchased, the availability date, the security's credit rating, and the names of the syndicate members authorized to sell the security.
- The tombstone gets its unusual name from the black border and heavy black type that typically appears on the print advertisement, which some say resembles a gravestone marker.

How a Tombstone Works

In order to raise money, a company's management can sell equity shares in the company through a public offering. A tombstone is one component of the disclosure requirements for security offerings required by the Securities and

Exchange Commission (SEC). The tombstone is simply an announcement that securities are available for sale.

Tombstone Ad vs. Prospectus

While a tombstone ad is just a brief announcement alerting investors to the upcoming security sale, a prospectus goes into greater detail and gives investors the information they need to make an investing decision. When a company issues securities to the public, the SEC requires that each investor receive a prospectus. The prospectus requirement applies to an initial public offering (IPO), which refers to the first time an issuer sells any type of security to the general public.

The prospectus requirement also applies to all seasoned issues, A seasoned issue, also known as a secondary offering, is when an established company that already trades on the stock exchange issues new shares of stock for sale. A tombstone for a secondary offering is mailed to all investors who already own the security, and all secondary offerings are sold using a prospectus.

The preliminary prospectus doesn't include price information, but is used to gauge market interest in the security being proposed; the final prospectus, however, includes price information as well as the number of shares the company will sell.

The Role of Underwriters

An underwriter is responsible for managing the legal and accounting process of creating a prospectus. The prospectus includes the issuer's most recent set of audited financial statements, as well as a legal opinion regarding the existence of any pending legal matters.

A prospectus goes into great detail about a firm's marketing, production, and sales process, and it explains why the company is raising more capital. In addition to the underwriters, there may be many other members of the syndicate who are brought in to sell the securities to their customers. The underwriter's sales force also sells the newly issued securities.

Examples of Tombstone Information

The tombstone describes the types of securities that are offered, the date they are available, the number of shares or bonds to be sold, and how the securities can be purchased. If a new debt security receives a credit rating, that rating can be included in the tombstone.

A tombstone advertisement gets its name from the black border and heavy black print one typically has in print media. The tombstone lists the syndicate members who are involved in the underwriting of the security, with the primary members listed in larger type at the top of the advertisement.

A syndicate member's level of involvement is based on the work the member performs on the security offering and the percentage of the total issue that the member's firm sells to the public. If a syndicate member is listed at the top of a tombstone for a popular issuer of stock, that document helps the syndicate firm market its expertise to other companies.